

## Message Text

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ACTION NEA-09

INFO OCT-01 ISO-00 NEAE-00 CIAE-00 DODE-00 PM-03 H-02

INR-07 L-02 NSAE-00 NSC-05 PA-02 PRS-01 SP-02 SS-15

USIA-15 AID-05 COME-00 EB-07 FRB-01 TRSE-00 XMB-04

OPIC-06 CIEP-02 LAB-04 SIL-01 OMB-01 AGR-10 IO-10

SAM-01 SAB-01 ACDA-10 /127 W  
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P 261245Z FEB 75

FM AMEMBASSY TEL AVIV

TO SECSTATE WASHDC PRIORITY 5721

UNCLAS TEL AVIV 1251

E O 11652: N/A

TAGS: EFIN, IS

SUBJECT: GOI PRESENTS BUDGET FOR FY-1975/76

REF: A. TEL AVIV 1192

B. TEL AVIV 0388

C. TEL AVIV A-32

1. FINMIN RABINOWITZ TABLED FY-1975/76 BUDGET  
IN KNESSET FEB 24. TOTAL EXPENDITURES OF IL 56.3 BILLION  
(DOLS 9.4 BILLION) ARE ESTIMATED FOR FISCAL YEAR BEGINNING  
APRIL 1, OF WHICH PI22.4 BILLION (DOLS 3.7 BILLION) FOR DEFENSE.  
BUDGET INCLUDES UNCOVERED DEFICIT OF IL 1.5 BILLION (DOLS 250  
MILLION) WHICH WILL BE ADVANCED OR LOANED FROM BANK OF ISRAEL,  
I.E., MONEY WILL BE PRINTED. FINAL KNESSET APPROVAL OF  
BUDGET EXPECTED IN SEVERAL MONTHS.

2. TOTAL ORDINARY REVENUE PROJECTED AT IL 44.5 BILLION, OF  
WHICH IL 32.8 BILLION FROM TAXES AND COMPULSORY LOANS, IL 10.1  
BILLION TRANSFER FROM LOANS AND ON CAPITAL ACCOUNT, AND IL 1.6  
BILLION OTHER SOURCES, INCOME FROM LOANS AND ON CAPITAL ACCOUNT  
ESTIMATED AT IL 11.8 BILLION, AFTER TRANSFER IL 10.1  
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BILLION NOTED ABOVE. FOREIGN BORROWING AND GRANTS, WHICH HAVE

COME IN PAST PRIMARILY FROM THE U.S. BUT ALSO FROM WEST GERMANY, WORLD BANK AND IMF, PROJECTED AT IL 13.2 BILLION (DOLS 2.2 BILLION). ADDITIONALLY, SURPLUS FOOD (PL-480) LISTED AT IL 150 MILLION (DOLS 25 MILLION). DOMESTIC BORROWING ESTIMATED AT IL 5.9 BILLION.

3. TOTAL ORDINARY EXPENDITURES ESTIMATED IL 44.5 BILLION AND TOTAL DEVELOPMENT EXPENDITURES AT IL 11.8 BILLION. AFTER DEFENSE, GREATEST EXPENDITURES ARE PROJECTED FOR DEBT REPAYMENTS OF IL 10.2 BILLION (DOLS 1.7 BILLION), OR 18 PERCENT OF TOTAL BUDGET, OF WHICH INTEREST PAYMENTS IL 5 BILLION AND DEBT REDEMPTION IL 5.2 BILLION. SUBSIDIES OF BASIC FOOD COMMODITIES AND TRANSPORT FORECAST AT IL 1.9 BILLION AND EXPORT INCENTIVES AT 8) 2.4 BILLION.

4. BUDGET CONTAINS IL 950 MILLION IN SPECIAL BUDGETS WHICH IS GENERALLY ASCRIBED TO DEFENSE, WHICH THEREFORE WILL AMOUNT TO 41 PERCENT OF TOTAL BUDGET AND 31 PERCENT OF GNP.

5. OFFICIAL GOI ECONOMIC FORECAST FOR 1975 ISSUED SIMULTANEOUSLY WITH BUDGET CONTAINED FOLLOWING PROJECTIONS: GNP OF IL 76.4 BILLION, AN INCREASE OF 3.2 PERCENT IN REAL TERMS, TOTAL IMPORTS OF DOLS 74. BILLION AND TOTAL EXPORTS OF DOLS 4.1 BILLION FOR CURRENT ACCOUNT DEFICIT OF DOLS 3.3 BILLION; FOREIGN EXCHANGE RESERVES OF DOLS 1.1 BILLION; AND FOREIGN DEBT REACHING DOLS 7.9 BILLION AT END OF YEAR. GROSS IMMIGRATION PREDICTED AT 45,000 IN 1975. INFLATION RATE OF 18 PERCENT FORECAST DURING COURSE OF YEAR, ASSUMING VALUE-ADDED-TAX INTRODUCED. FINMIN NOTED THAT VALUE-ADDED-TAX WOULD BE TABLED IN KNESSET SHORTLY AND IMPLEMENTED BY END OF YEAR.

6. COMMENT: FINMIN STRESSED THAT BUDGET AND NEW TAXES (REF A) WERE CONTINUATION OF GOVT'S EMERGENCY ECONOMIC PROGRAM WHICH INCLUDED NOVEMBER DEVALUATION. GOI HAS ATTEMPTED TO STRIKE A DELICATE BALANCE BETWEEN REDUCING EXPENDITURES TO MINIMUM WHILE INCREASING TAXES TO MAXIMUM POSSIBLE, IN ORDER TO DEAL WITH ECONOMY'S PROBLEMS OF BALANCE OF PAYMENTS AND INFLATION. AS REPORTED REF A, GOI HOPES TO SPEND 20 PERCENT LESS

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THAN ANTICIPATED APPROPRIATEION IN FIRST QUARTER FY-1975-76 (APRIL THROUGH JUNE) AS FURTHER ANTI-INFLATIONARY MEASURE. WHILE THE POLITICAL FALLOUT FROM THESE NEW MEASURES IS NOT YET CLEAR, A KEY ELEMENT WILL BE POSITION OF HISTADRUT. THERE IS POSSIBILITY THAT HISTADRUT WILL DEMAND FULL COMPENSATION FOR INFLATIONARY IMPACT OF NEW TAXES AND A REOPENING OF WAGE AGREEMENTS NEXT JULY. MOREOVER, MANUFACTURER'S ASSOCIATION OPPOSES NEW EMPLOYEE TAX BECAUSE IT CREATES

DISINCENTIVE TO INCREASED PRODUCTIVITY SINCE PUBLIC  
SECTOR EXCLUDED. MANUFACTURERS ALSO FEAR THAT INCREASED  
PURCHASE TAXES WILL DEPRESS SALES FURTHER. WE SHALL BE FOLLOWING  
THESE DEVELOPMENTS CLOSELY. DETAILED ANALYSIS OF BUDGET  
WILL FOLLOW.  
KEATING

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## Message Attributes

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